

Message Text

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E.O. 11652: GDS

TAGS: ENRG, ETRD, CH

SUBJECT: ESSO NEGOTIATIONS ON PRC OIL

REF: A. STATE 245435; B. HK 12007

SUMMARY: PRC INITIALLY OFFERING ESSO 300,000 BARRELS LOW SULPHUR CRUDE AT PRICE COMPAABLE THAT GIVEN JAPAN. IN DECIDING THIS CURRENT OFFER, ESSO MUST NOW WEIGH ADVISABILITY ASSUMING SPECIFIC LOSS OR ADDED COSTS DUE CURRENT SLACK MARKETING CONDITIONS ESPECIALLY FOR PREMIUM CRUDE AGAINST POTENTIAL ON-GOING AND LONG RANGE COMMERCIAL RELATIONSHIP BENEFITS.

1. ALTHOUGH RELUCTANT TO DISCLOSE MANY SPECIFIC DETAILS FROM HIS CANTON DISCUSSIONS ON ABOVE SUBJECT, WE DID LEARN THE FOLLOWING FROM SEARLS (PLEASE PROTECT PER REFTEL B): PRC PRECISE OFFER NOW IS 300,000 BARRELS LOW SULPHUR CRUDE WITH ASKING PRICE "SAME AS TO JAPAN" (\$12.80 FOB). ACCORDING TO SEARLS, ESSO DOES NOT NEED ADDITIONAL PREMIUM CRUDE NO. IF IMMEDIATELY OFF-LOADED AT NON-PREMIUM PRICE, HE ESTIMATES THAT AT JAPANESE PRICE LEVEL COMPANY WOULD PROBABLY STAND LOSS OF ABOUT \$70,000(APPROXIMATELY \$2.50 PER BARREL). IF NOT SOLD IMMEDIATELY, ESSO WOULD INCUR UNNECESSARY STORAGE AND FINANCING COSTS. AGAINST THIS LOSS/COST BURDEN, CONFIDENTIAL

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ESSO HEADQUARTERS MUST WEIGH IMPLICATIONS OF FUTURE COMMERCIAL

RELATIONSHIP BENEFITS WITH PRC. SEARLS IMPLIED THAT THIS RELATIVELY SMALL INITIAL SHIPMENT COULD BE JUST A FORERUNNER OF MORE CRUDE LATER ALTHOUGH HE WOULD NOT SAY SUCH WAS EXPLICITLY PROMISED BY THE CHEMICAL TRADING CORPORATION OFFICIALS.

2. RESPONDING TO CONGENOFF QUESTIONS, SEARLS ASSUMES CURRENT PRC SALES OFFER IS GENERATED BY PRC NEED FOR ADDITIONAL EXPORT REVENUES BUT HE KNOWS OF NO OTHER COMPANIES BEING OFFERED SUBJECT CRUDE. HE DODGED QUESTION ON TIME ELEMENT FOR ESSO RESPONSE OR WHERE SUBJECT CRUDE LOCATED. WHEN QUERIED AS TO WHY CHINA NOT OFFERING ADDITIONAL CRUDE TO JAPAN, SEARLS SURMISED THAT (A) PERHAPS CHINA WANTS TO OPEN UP SOME NEW LIMITS FOR THEIR LOW SULPHUR OIL (ALTHOUGH CHINA NOT AWARE AS TO WHERE ESSO MIGHT OFF LOAD THIS CRUDE) AND/OR (B) POSSIBLY JAPAN'S OIL BUYING CONSORTIA CANNOT HANDLE MORE HIGH GRADE CRUDE ON TOP OF WHAT JAPAN ALREADY IS GETTING VIA EXISTING CONTRACTS WITH CHINA, INDONESIA, ETC. (IN FACE OF 4.8MILLION TO N CONTRACT, 50 ADDITIONAL TONS WOULD NOT SEEM TO PRESENT JAPAN WITH DIFFICULT ABSORPTION PROBLEM.)

3. SUBJECT TO ESSO HEADQUARTERS APPROVAL, SEARLS ALSO PLANS EXPLORE OTHER BUSINESS POSSIBILITIES WITH PRC. THIS WOULD INCLUDE SOME ADVANCED REFINERY TECHNOLOGY AND POSSIBLY AN ADVANCED OFF-SHORE RIG AND EXPLORATION PROPOSAL TIED IN WITH SOME OIL RETURN. LATTER PROPOSITION HAS BEEN DEVELOPED EARLIER JOINTLY WITH CONGEN AND WILL BE REPORTED SEPARATELY. CONGEN WILL ALSO REPORT SEPARATELY ON ESSO'S LOCAL DISCUSSIONS WITH FEOSO ON POSSIBLE SELLING

LOCAL TERMINAL FACILITIES (REFTEL A).

4. COMMENT: WE ARE CONFIDENT THAT SEARLS WILL RECOMMEND THAT ESSO HEADQUARTERS TAKE ON SUBJECT DEAL AS BASIS FOR CEMENTING BUSINESS RELATIONS WITH BIGGER FUTURE POTENTIALS. CERTAINLY PROSPECTS OF ADDITIONAL OIL SUPPLY SOURCE IN FACE OF INSTABILITY MIDDLE EAST DEVELOPMENTS MUST WEIGH HEAVILY ON COMPANY MINDS. ALSO WITH CLEAR ALTERNATIVE AVAILABILITIES FROM INDONESIA AND ELSEWHERE COUPLED WITH RELATIVELY SOFT MARKET FOR PREMIUM CRUDE, COMPANY MAY FIND SOME

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ROOM FOR NEGOTIATING BETTER PRICE NOW THAT PRC'S SPECIFIC OFFER IS KNOWN. FURTHERMORE, ESSO MAY TRY PUT TOGETHER PACKAGE DEAL INVOLVING OPTIONS ON FUTURE OIL AVAILABILITIES AND/OR POSSIBLE OFFERS OF AFOREMENTIONED TECHNOLOGY, FACILITIES, ETC.
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